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PROFITABILITY ANALYSIS OF AUTOMOBILE INDUSTRY IN INDIA

By

JAI PRAKASH

Research Scholar
(ASSOCIATE PROFESSOR OF COMMERCE)
(PT C.L.S GOVT. COLLEGE, KARNAL. HR)

Under the Guidance of

Dr. S.S. JADHAV
(M.Com, M.Phil, Ph.D)

Associate Professor,Department of Commerce
Bhai Kishanarao Deshmukh, Mahavidyalaya

Chakur, Dist. Latur (MH)

RESEARCH CENTRE
SHIVAJI MAHAVIDYALAYA, RENAPUR
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INTRODUCTION

Automobile industry is the key driver of any growing economy and plays a pivotal role in country's rapid economic and industrial development. It caters to the requirement of equipment for basic industries like steel, non-ferrous metals, fertilizers, refineries, petrochemicals, shipping, textiles, plastics, glass, rubber, capital equipment's, logistics, paper, cement, sugar, etc. It facilitates the improvement in various infrastructure facilities like power, rail and road transport. The Indian automobile industry has been recording tremendous growth over the years and has emerged as a major contributor to India's Gross Domestic Product. The industry currently accounts for almost 7 per cent of the country's GDP and employs about 19 million people both directly and indirectly. According to the Automotive Mission Plan 2016-26, with Government's backing and special focus on exports, the automotive sector's contribution to the GDP is expected to reach in double figures up to 2016. It is important to know that how this growing sector is affecting the financial performance of companies under this sector.

Indian Automobile industry is one of leading automobile industries in the World. The scenario started changing after relicensing of the Indian sector in 1991.The opening up of 100 percent FDI through the automobile route marked the beginning of a new era for the Indian automotive industry. The automobile industry contributes 7`0 percent to the country's gross domestic product (GDP) and annual production of 23.96 million vehicles in FY 2020-21. India exported 4.13millions of vehicles in 2021.. Indian automobile industry includes the manufacture of trucks, buses, cars, defences vehicles, two-three wheelers etc. The automobile industry broadly divided into car manufacturing, two-wheeler manufacturing & heavy vehicle manufacturing units. The main growth drivers for Indian automobile industry are government policies, new innovations and product launchers, reducing cost to consumer exporting outs to other countries. The government of India aims to made automobile manufacturing the main driver of "Make in India" initiative, as it expects the passenger vehicles market to triple to 9.4 million units by 2026 as highlighted in the Auto Mission plan (AMP) 2016-26. The technology advancement in Indian Automobile industry i.e. Eco friendly cars that is CNG based vehicles, hybrid vehicles and electric vehicles to protect the environment. Automobile industry has four large manufacturing hubs across the Country.

- Delhi-Gurgaon-Faridabad in the North.
- Mumbai-Pune-Nashik-Aurangabad in the West.

- Chennai-Bengaluru-Hosur in the South and
- Jamshedpur-Kolkata in the East

Global car majors have been ramping up investments in India to cater to growing domestic demand. These manufacturers plan to leverage India's competitive advantage to set up export-oriented production hub. Electric car able to be increase market segment size in the coming decade. Some important research works undertaken in recent years which are very closely connected with the present study are reviewed

STATEMENT OF PROBLEM

Automobile industry is the key driver of any growing economy and plays a central role in country's rapid economic and industrial development. In Indian Automobile industries Tata Motors dominates over 60% of the Indian commercial vehicle market. The remaining automobile industries cover 40% shares in the market. In this background an attempt has been made to ascertain the determinants of profitability of automobile industry in India by taking a sample of all the automobile firms covering various segments of automobile industry in India. Further the present study is undertaken to fill the research gap in these areas and pertain the answer for the following question. What about the financial performance and their impact on liquidity and profitability position of selected automobile Industry.

REVIEW OF LITERATURE

 Kumar & Kaur (2014) Automobile sector is the dominant player in economy of world. After liberalization Indian automobile industry has emerged as a major contributor to India's GDP. The study identified that there is no significant in the means score of various financial ratios of Maruti Suzuki and Tata motors but in meeting their long term
obligations and efficacy of utilizing the assets show the significant difference in the efficiency of both the firms.

 Krishnaveni, & Vidya, (2015) find that Indian automobile industry is a high flying sector these days and emerging as an export hub in wake of liberalization and globalization. This paper revises the category wise production, sales and exports of automobile industry in India. Industry growth can be viewed in term of pre and post liberalization. As government allows100 percent

FDI, increase 15% in customs duty on cars and MUVs to encourage local manufacturer and concessional import duty on specified parts of hybrid vehicles.

 Becker (2015) the report shows about the current state and future prospects of the worldwide automobile industry. This survey report the manufacturer, executive and consumer views about four aspects, mobility culture, technological fit, business model readiness and market share.

 Anu (2015) made an attempt to examine the relationship between capital structure indicators, market price per shares and also to test relationship between debt-equity and market price per share of selected companies in industry. The study concludes that all three companies support the hypothesis that there is relation between debt-equity and MPS.

 Agarwal, (2015) the study focus on the comparative financial performance of Maruti Suzuki and Tata motors ltd. The financial data and information required for the study are drawn from the various annual reports of companies. The liquidity and leverage analysis of both the firms are done. To analyze the leverage position four ratios are considered namely, capital gearing, debt-equity, total debt and proprietary ratio. The result shows that

Tata motors ltd has to increase the portion of proprietor's fund in business to improve long term solvency position.

 Jothi, & Kalaivani (2015) studied the comparative performance of Honda Motors and Toyota Motor that both companies have satisfactory short term liquidity position. As for as cash ratio concerned Honda company has upper hand upper hand in sound cash management practice during the study period. In case of profitability it is rising from the both of companies but remained much higher earning potential in Honda motor ltd.

 Krishnaveni & Vidya, (2015) author has selected 87 companies out of 242 companies in capital line database to discuss the standard current ratio of automobile industry is matched with tractor and four sectors like engine parts, lamps, gears and ancillaries with standard norms. The study concludes that current and liquidity ratio of automobile industry is matched with tractor and the four sectors but other sectors have to improve the repaying capacity to strengthen the financial aspects.

 Kumar & Kaur (2016) made an attempt to test the size and profitability relationship in the Indian automobile industry. To analyze the relationship linear regression model as well as cross-sectional has been employed for the year 1998to 2014. For profitability analysis two different

measures have been used (i) ratio of net profit to total sales turnover (ii) ratio of net income to net assets plus working capital and for form size two indicators used namely, total sales turn over and net assets. The time series analysis showed the positive relationship between firm size and profitability but cross-sectional show no relationship between firm size and profitability.

 Mathur & Agarwal (2016) Ratio's are an excellent and scientific way to analyze the financial performance of any firm. The company has received many awards and achievements due to its new innovations and technological advancement. These indicators help the investors to invest the right company for expected profits. The study shows that Maruti Suzuki limited is better than Tata motors limited.

 Jothi & Geethalakshmi (2016) this study tries to evaluate the profitability & financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long term capital.

 Kumar et.al (2016) the study has been made through using different ratios , mean, standard deviation and Altman's Z score approach to study the financial health of the company. The study reveals there is a positive correlation between liquidity and profitability ratios except return on total assets as well as Z score value indicate good health of the company.

 Kaur (2016) the author tries to examine the qualities & quantities performer of maruti Suzuki co. & how had both impact on its market share in India, For this study secondary data has been collected from annual reports, journals, report automobile sites. Result shows that MSL has been successfully leading automobile sector in India for last few years.

SCOPE OF THE STUDY

This present study is concerned with the financial performance of selected automobile companies. Profitability analysis measures whether the company's strategy and its implementation and execution are effectively contributing towards profitability, Liquidity, efficiency and solvency so that the business can be carried out smoothly ensuring success, growth and bottom line improvement.

OBJECTIVES OF THE STUDY

1) To compare short term financial obligations of automobile industry in India

2) To compare the working capital requirements of automobile industry in India.

3) To compare the long term solvency of automobile industry in India.

4) To compare the profitability of automobile industry in India.

5) To compare the efficiency in utilization of financial resources of automobile industry in India.

6) To study the profile and growth of automobile industry in India.

HYPOTHESES OF THE STUDY

The researcher identified the following null hypotheses for the study:-

H1: There is no significant difference among the ability to meet short term financial obligation of automobile industry in India.

H2: There is no significant difference among the working capital requirement of automobile Industry in India.

H3: There is no significant difference among long term solvency of automobile industry in India.

H4: There is no significant difference among the efficiency of the companies in utilization of financial resources of automobile industry in India.

SAMPLE SELECTION

The first step in selecting companies has been the identification of a global set from which all further selections have been performed. A list of companies that constitute population has been drawn from the Capitaline plus data base. The present study based on a composite sample of three companies. sample has been chosen on the basis of purposive sampling. companies for which information relating to profit and loss account and balance sheet is available for most of the years under study have been included in the sample. Initially 55 companies comprising of 11 commercial vehicles, 5 motorcycles, 15 passenger cars, 14 scooters and three wheelers and 10 tractors, have been identified. But on scrutiny, it has been found that some companies have the data for the entire study period, while the others do not. The inclusion of companies having data

for a heterogeneous period of time would undoubtedly distort the method of analysis. As such, the sample finally holds only 3 companies for which the much needed financial information is available for the entire study period. These three companies are taken into consideration. These are as follows:-

1. Tata Motors
2. Mahindra & Mahindra
3. Maruti Suzuki

PERIOD OF THE STUDY

The period for this study covered six years from 2016 to 2022.The financial year starts from 1st April to 31st March every year.

1. 2016-17
2. 2017-18
3. 2018-19
4. 2019-20
5. 2020-21
6. 2021-22

SOURCES OF DATA COLLECTION

The present study is based on secondary data. Data will be collected from published annual reports of the companies, companies websites, PROWESS database, books , journals, magazines.

TOOLS & TECHNIQUES USED FOR DATA ANALYSIS

1. Ratio Analysis
2. Arithmetic Mean
3. Standard Deviation
4. t-test

LIMITATIONS OF THE STUDY:

Financial information collected for the present study is entirely secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data and financial information. The study is restricted to select companies for the period of 6 years. While computing the data for the purpose of analysis, the approximation of decimal places leads to minor variations in ratios as well as percentage analysis and these are bound to exist in the present study. Further the annualized data are unlikely to reveal the true financial performance of the sample companies. The hidden inconsistency of the financial statements is not probed into. While extending the result of the study one should be careful to use the same judiciously by taking the limitations into consideration

CHAPTER SCHEME

1. INTRODUCTION
2. REVIEW OF LITERATURE
3. RESEARCH METHODOLOGY
4. ANALYSIS & INTERPRETATION
5. CONCLUSIONS & SUGGESTIONS

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Jai Prakash
Research Scholar
Pt. C.L.S Govt. College
Karnal(Haryana)

Dr. S.S Jadhav
Research Guide
B.K.D College
Chakur (Maharastra)